

Message Text

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AMEMBASSY VIENNA

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VIENNA FOR DIETZ

E.O. 11652: N/A

TAGS: ETRD, SZ

SUBJECT: SWISS TAX ON INTEREST PAYMENTS: EXIMBANK CFF
PROGRAM

REF: BERN 3195 AND PREVIOUS

1. SUMMARY. GOS AUTHORITIES CONTINUE TAKE POSITION THAT
TAX MUST BE WITHHELD FOR SUBSEQUENT PARTIAL REFUND ON INTEREST
PAYMENTS BY BANKS IN SWITZERLAND TO EXIMBANK UNDER CFF
PROGRAM. ONLY SOLUTIONS APPEAR TO BE: A) EXIMBANK PAYMENT
OF TAX WHICH WOULD RAISE EFFECTIVE INTEREST RATE SLIGHTLY
BUT NOT TO NON-COMPETITIVE LEVELS; B) AMEND SWISS LAW; OR
C) AMEND US-SWISS TREATY ON DOUBLE TAXATION.
END SUMMARY.

2. EXIMBANK REP GEORGE DIETZ AND ECONOMIC COUNSELOR MET
DEC 10 WITH DR. KURT LOCHER, DIRECTOR, SWISS FEDERAL TAX
ADMINISTRATION TO REVIEW PROBLEM POSED FOR OPERATION
EXIMBANK COOPERATIVE FINANCING FACILITY (CFF) IN SWITZER-
LAND BY SWISS ANTICIPATORY (SOURCE WITHHOLDING) TAX ON INTEREST
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PAYMENTS TO EXIMBANK BY SWISS PARTICIPATING BANKS.

LEUTHI AND STOCHAR WHO PARTICIPATED IN JULY 31 MEETING WITH DIETZ ON SAME SUBJECT WERE ALSO PRESENT. (BERN 3195).

3. LOCHER WAS FRIENDLY AND INTERESTED IN PROBLEM BUT SAID SWISS TAX LAW AND PRACTICE CLEARLY REQUIRE PAYMENT ANTICIPATORY TAX AT RATE OF 30 PERCENT ON INTEREST PAID BY BANKS ON LOANS WITH TERMS OVER ONE YEAR. UNDER US-SWISS TAX TREATY RECIPIENTS IN US CAN BY FILING FORM R 82 (COPY BEING SENT EXIMBANK BY DIETZ) AT YEAR-END RECEIVE REFUND AT RATE OF 25 PERCENT MAKING EFFECTIVE TAX OF 5 PERCENT. FACT THAT CFF FUNDS ARE DISBURSED IN US TO EXPORTERS AND DO NOT ENTER SWITZERLAND IS IMMATERIAL AS LONG AS BANK IN SWITZERLAND MUST PAY INTEREST ON LOAN TO EXIMBANK. PROBLEM DOES NOT ARISE IN CASE EX DIRECT EXIMBANK LOANS TO PURCHASER WITHOUT SWISS BANK INTERMEDIARY ROLE.

4. LOCHER SUGGESTED THAT FOLLOWING SEEMED ONLY POSSIBLE SOLUTIONS: A) AMENDMENT OF SWISS LAW ON FEDERAL ANTICIPATORY TAX; B) AMENDMENT OF US-SWISS TAX TREATY EITHER TO WAIVE WITHHOLDING TAX ON ALL INTEREST PAYMENTS OR TO GIVE SPECIAL TREATMENT TO GOVERNMENTAL ENTITIES; OR C) PROCEED WITH CFF PROGRAM WITH EXIMBANK PAYING 5 PERCENT TAX. LOCHER SAID RE LATTER THAT HE CALCULATED EFFECTIVE INTEREST RATE PAYABLE BY BANK IN SWITZERLAND FOR CFF LOAN WOULD ONLY BE 6.315 PERCENT WHICH NOW SHOULD BE ATTRACTIVE GIVEN RECENT RISING TREND OF INTEREST RATES IN SWITZERLAND. WITH REGARD POSSIBLE SOLUTIONS A AND B, LOCHER NOTED THAT AMONG PROBLEMS WOULD BE NECESSITY TO CONVINCE KEY ELEMENTS SWISS POLITICAL AND ECONOMIC LIFE (E.G. FEDERAL POLITICAL DEPARTMENT, DIVISION OF COMMERCE, SWISS BANKERS ASSOCIATION, VORORT--MANUFACTURERS ASSOCIATION) OF NECESSITY AND ADVANTAGES TO SWITZERLAND OF ANY PROPOSED CHANGE. IN THIS CONNECTION, HE NOTED THAT APPARENTLY THUS FAR NO MAJOR SWISS BANKS HAVE APPLIED TO ESTABLISH CFFS, OR AT LEAST BEEN APPROVED.

5. LOCHER SIAD HE WAS NOT AWARE OF PROGRAMS SIMILAR TO CFF OPERATED BY OTHER GOVERNMENTS IN SWITZERLAND NOR HAD HE HEARD OF ANY OTHER COMPLAINTS RE WITHHOLDING TAX ON INTEREST OR REFUND PROCEDURES.

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6. DIETZ AND EMBOFF EXPRESSED APPRECIATION TO LOCHER FOR ABOVE INFORMATION. MEETING ALSO USEFUL AS OPPORTUNITY FOR DIETZ TO GIVE LOCHER DESCRIPTION, RATIONALE, AND PURPOSES OF CFF PROGRAM.

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